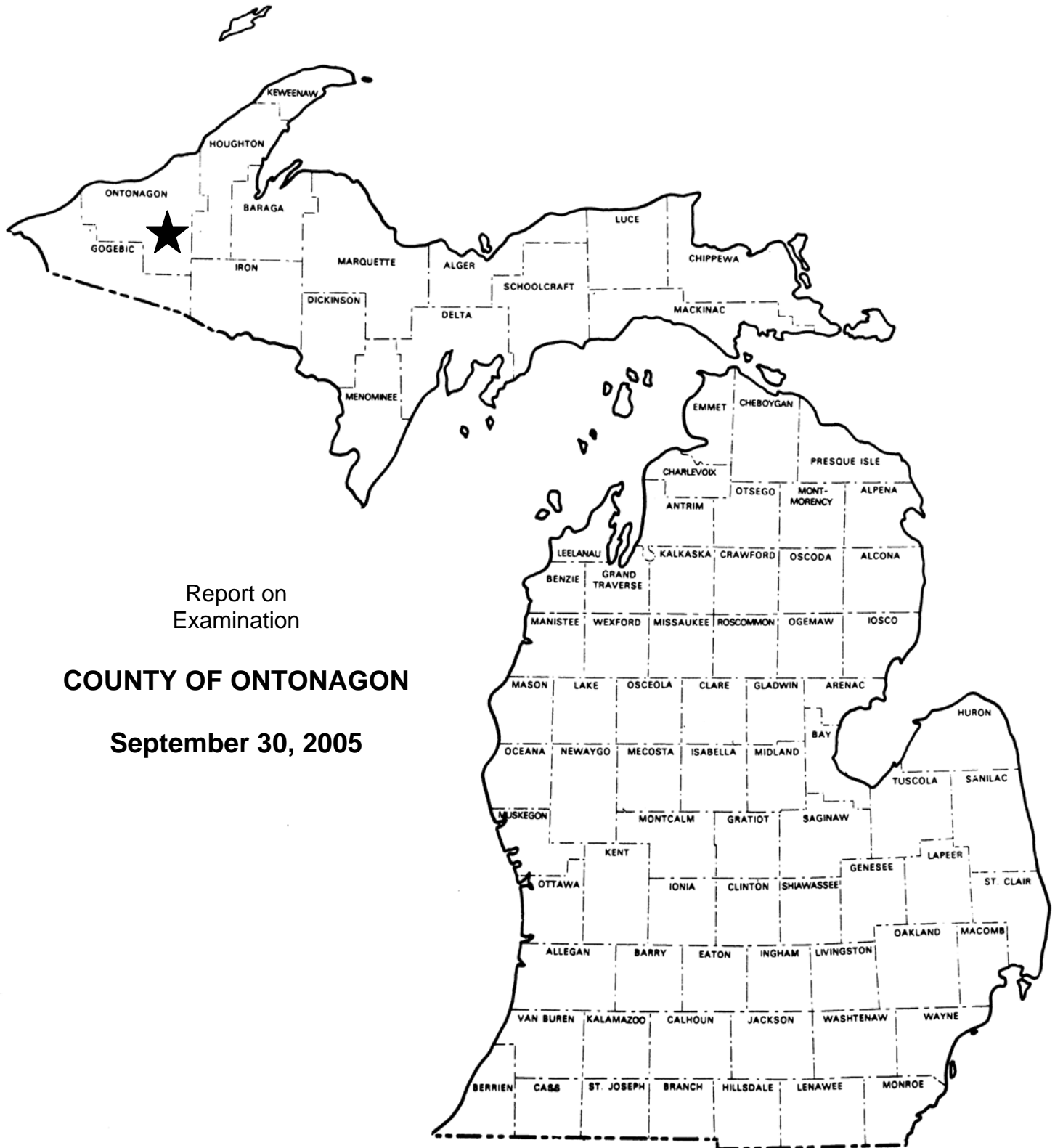


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination
COUNTY OF ONTONAGON
September 30, 2005

ONTONAGON COUNTY
BOARD OF COMMISSIONERS

Joan V. Antila
Chairperson

Hubert Lukkari

Louis J. Paulman

Joseph Moskwa

John E. Pelkola

COURT JUDGES

Roy D. Gotham
Circuit Judge

Joseph D. Zeleznik
Probate Judge

Anders B. Tingstad
District Judge

OTHER ELECTED OFFICIALS

Diana J. Killoran
Treasurer

James R. Jessup
Prosecuting Attorney

John Gravier
Sheriff

William Turin
Mine Inspector

Judith D. Roehm
Clerk and Register of Deeds

COUNTY POPULATION--2000
7,788

STATE EQUALIZED VALUATION--2005
\$324,182,253



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 9, 2005

Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ontonagon County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Ontonagon County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Ontonagon County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ontonagon County, as of September 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2005, on our consideration of the Ontonagon County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of

that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparisons for the Major Fund, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ontonagon County's basic financial statements. The combining nonmajor fund financial statements (Exhibits O through U) and the general fund detail schedule of revenues and expenditures (Exhibits V through W), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ONTONAGON

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
BASIC FINANCIAL STATEMENTS	
EXHIBIT A--Government-Wide Statement of Net Assets	9
EXHIBIT B--Government-Wide Statement of Activities	10
EXHIBIT C--Balance Sheet--Governmental Funds	11
EXHIBIT D--Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	12
EXHIBIT D-1--Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities	13
EXHIBIT E--Statement of Net Assets--Proprietary Funds	14
EXHIBIT F--Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds	15
EXHIBIT G--Statement of Cash Flows--Proprietary Funds	16
EXHIBIT H--Statement of Net Assets--Fiduciary Funds.....	17
EXHIBIT I--Combining Statement of Net Assets--Component Units	18
EXHIBIT J--Combining Statement of Activities--Component Units	19
NOTES TO FINANCIAL STATEMENTS	
A--Summary of Significant Accounting Policies	20
B--Legal Compliance.....	29
C--Cash and Interest-Bearing Deposits	30
D--Accounts Receivable	31
E--Advances to Other Funds--General Fund	32
F--Capital Assets.....	32
G--Long-Term Debt.....	34
H--Compensated Absences	35
I--Deferred Compensation	37
J--Employees’ Retirement Plans.....	37
K--Post-Employment Benefits.....	39
L--Risk Management	39
M--Reserve for Self-Insurance--Road Commission	40
N--Transfers In and Transfers (Out).....	41
O--Federal Grants	41
P--State Trunkline Maintenance Revenue and Expenditures	41

COUNTY OF ONTONAGON

TABLE OF CONTENTS

(Continued)

Page

REQUIRED SUPPLEMENTAL INFORMATION

EXHIBIT K--Budgetary Comparison Schedule--General Fund	42
EXHIBIT L--Budgetary Comparison Schedule--Public Transit--Major Special Revenue Fund	43
EXHIBIT M--Budgetary Comparison Schedule--911 Service--Major Special Revenue Fund	44
EXHIBIT N--Budgetary Comparison Schedule--Economic Development Revolving Loan Fund	45

SUPPLEMENTAL INFORMATION AND SCHEDULES

EXHIBIT O--Combining Balance Sheet--Non-Major Governmental Funds	46
EXHIBIT P--Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances--Non-Major Governmental Funds	48
EXHIBIT Q--Combining Schedule of Net Assets--Non-Major Enterprise Funds	50
EXHIBIT R--Combining Schedule of Revenues, Expenses and Changes in Net Assets Non-Major Enterprise Funds	51
EXHIBIT S--Combining Schedule of Cash Flows--Non-Major Enterprise Funds	52
EXHIBIT T--Combining Schedule of Fiduciary Net Assets--Agency Funds	53
EXHIBIT U--Combining Schedule of Changes in Assets and Liabilities Agency Funds	54
EXHIBIT V--Schedule of Revenues and Other Financing Sources Budget and Actual--General Fund	55
EXHIBIT W--Schedule of Expenditures and Other Uses--By Activity Budget and Actual--General Fund	57
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	59
Comments and Recommendations	61

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

The County's net assets for the governmental funds increased \$79,537 from a year ago for the governmental activities. The County's net assets for the business-type activities increased \$22,300 from a year ago for the business-type activities. In a condensed format, the table below shows a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2004	Governmental Activities 2005	Difference	Percent
Current Assets	\$ 1,881,519	\$ 2,237,377	\$ 355,858	19%
Noncurrent Assets	2,046,480	1,746,441	(300,039)	-15%
Total Assets	3,927,999	3,983,818	55,819	1%
Current Liabilities	160,289	172,342	12,053	8%
Long-Term Liabilities	243,868	208,097	(35,771)	-15%
Total Liabilities	404,157	380,439	(23,718)	-6%
Net Assets				
Invested in Capital Assets				
Net of Debt	1,708,480	1,673,651	(34,829)	-2%
Restricted	1,521,458	1,791,849	270,391	18%
Unrestricted	293,904	138,372	(155,532)	-53%
Total Net Assets	\$ 3,523,842	\$ 3,603,379	\$ 79,537	2%

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Current Assets	\$ 437,767	\$ 420,760	\$ (17,007)	-4%
Noncurrent Assets	<u>(338,000)</u>	<u>(299,000)</u>	<u>39,000</u>	<u>-12%</u>
Total Assets	<u>99,767</u>	<u>121,760</u>	<u>21,993</u>	<u>22%</u>
Current Liabilities	<u>70</u>	<u>(237)</u>	<u>(307)</u>	<u>-439%</u>
Total Liabilities	<u>70</u>	<u>(237)</u>	<u>(307)</u>	<u>-439%</u>
Net Assets				
Restricted		14,523	14,523	0%
Unrestricted	<u>99,697</u>	<u>107,474</u>	<u>7,777</u>	<u>8%</u>
Total Net Assets	<u>\$ 99,697</u>	<u>\$ 121,997</u>	<u>\$ 22,300</u>	<u>22%</u>

A large portion of the County's net assets, \$1,673,651 (46 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$1,791,849, (50.2 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$ 138,372 (3.8 percent), represents *unrestricted net assets* that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the September 30, 2005:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 861,132	\$ 877,476	\$ 16,344	2%
Operating Grants and Contributions	1,291,348	1,246,761	(44,587)	-3%
Capital Grants and Contributions	169,242	148,393	(20,849)	-12%
General Revenues				
Property Taxes	1,775,816	2,314,634	538,818	30%
Unrestricted Investment Earnings	14,936	11,571	(3,365)	-23%
Rentals	1,482	1,950	468	32%
Miscellaneous	920	9,668	8,748	951%
Transfers	98,717	62,683	(36,034)	-37%
Total Revenues	<u>4,213,593</u>	<u>4,673,136</u>	<u>459,543</u>	<u>11%</u>
Program Expenses				
General Government	1,691,233	1,860,063	168,830	10%
Public Safety	1,071,067	1,243,497	172,430	16%
Public Works	522,633	596,423	73,790	14%
Health and Welfare	384,841	374,260	(10,581)	-3%
Community and Economic Development	402,083	407,955	5,872	1%
Recreation and Culture	48,555	41,374	(7,181)	-15%
Other	64,707	70,027	5,320	8%
Total Expenses	<u>4,185,119</u>	<u>4,593,599</u>	<u>408,480</u>	<u>10%</u>
Change in Net Assets	<u>\$ 28,474</u>	<u>\$ 79,537</u>	<u>\$ 108,011</u>	<u>379%</u>

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. The property tax revenue increased by \$538,818 (or 30%) due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the general fund county property tax collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and set aside that amount into the Revenue Sharing Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

General government expenditures increased by \$168,830 mainly due to an increase in the remonumentation program and the part-time judge going to full-time.

Public Safety expenditures increased in the Sheriff's Department for a new officer and due to costs to run various grant programs. The 911 Fund expended \$170,003 more than the prior year due to the purchase of new radios and pagers for all public safety departments in the County.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 102,340	\$ 123,483	\$ 21,143	21%
Transfers				
Transfers (Out)	<u>(117,117)</u>	<u>(89,258)</u>	<u>27,859</u>	<u>-24%</u>
Total Revenues	<u>(14,777)</u>	<u>34,225</u>	<u>49,002</u>	<u>-332%</u>
Program Expenses				
Operating Expenses	<u>-</u>	<u>11,925</u>	<u>11,925</u>	<u>0%</u>
Total Expenses	<u>-</u>	<u>11,925</u>	<u>11,925</u>	<u>0%</u>
Change in Net Assets	<u>\$ (14,777)</u>	<u>\$ 22,300</u>	<u>\$ 37,077</u>	<u>-251%</u>

The change in net assets is the result of a decrease in the amount that was transferred to other funds (\$27,859) and the establishment of the Foreclosures Fund, which had revenues of \$24,770 and expenses of \$10,247.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed fiscal year 2005, its governmental funds reported are *combined* fund balances of \$1,458,841, a decrease of \$103,331. The net changes are summarized below:

	Governmental Activities 2004	Governmental Activities 2005	Amount Difference 2005	Percentage Difference 2005
Revenues				
Taxes	\$ 1,762,499	\$ 2,315,151	\$ 552,652	31%
Licenses and Permits	4,050	2,559	(1,491)	-37%
Federal Grants	528,828	510,312	(18,516)	-4%
State Grants	731,006	720,457	(10,549)	-1%
Contributions From Local Units		4,282	4,282	100%
Charges for Services	498,333	507,114	8,781	2%
Fines and Forfeits	26,559	23,099	(3,460)	-13%
Interest and Rentals	33,795	40,814	7,019	21%
Other Revenue	329,967	341,008	11,041	3%
Total Revenues	3,915,037	4,464,796	549,759	14%
Expenses				
General Government	1,626,232	1,818,011	191,779	12%
Public Safety	1,025,578	1,202,538	176,960	17%
Public Works	446,535	505,167	58,632	13%
Health and Welfare	481,001	508,536	27,535	6%
Community and Economic Development	305,624	273,380	(32,244)	-11%
Recreation and Cultural	47,800	40,619	(7,181)	-15%
Other	64,707	70,027	5,320	8%
Capital Outlay	200,678	203,969	3,291	2%
Debt Service				
Principal	79,246	8,563	(70,683)	-89%
Total Expenditures	4,277,401	4,630,810	353,409	8%
Excess of Revenues Over (Under) Expenditures	(362,364)	(166,014)	196,350	-54%
Other Financing Sources (Uses)				
Interfund Transfers In				
Primary Government	144,908	795,530	650,622	449%
Interfund Transfers (Out)				
Primary Government	(27,791)	(706,272)	(678,481)	2441%
Component Unit	(18,400)	(26,575)	(8,175)	44%
Total Other Financing Sources (Uses)	98,717	62,683	(36,034)	-37%
Beginning Fund Balance	1,855,819	1,562,172	(293,647)	-16%
Ending Fund Balance	\$ 1,592,172	\$ 1,458,841	\$ (133,331)	-8%

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

Our analysis of the County's major funds is detailed in the Notes to the Financial Statements, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2005 include the General Fund, the Public Transit Fund, the 911 Service Fund, the Economic Development Revolving Loan Fund, and the 2004 Tax Payment Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all county revenues and expenditures are recorded in the General Fund. The most significant are the general government, public safety, public works, and health and welfare which incurred expenses of \$1,818,011, \$1,202,538, \$505,167, and \$508,536, respectively, during 2005.

The County's total governmental revenues increased by approximately 14% primarily due to the property tax revenue increasing by \$552,652 (or 31%) due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund county property tax collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and set aside that amount into the Revenue Sharing Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

Expenses increased by approximately 8% mainly due to the general government expenditures increasing by \$168,830 for the remonumentation program and the part-time probate judge going to full-time. Public Safety expenditures increased in the Sheriff's Department for a new officer and due to costs to run various grant programs. The 911 Fund expended \$170,003 more than the prior year due to the purchase of new radios and pagers for all public safety departments in the County.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	Business-Type Activities 2004	Business-Type Activities 2005	Amount Difference 2005	Percentage Difference 2005
Operating Revenues				
Interest and Penalties on Taxes	\$ 102,340	\$ 123,483	\$ 21,143	21%
Total Operating Revenues	102,340	123,483	21,143	21%
Operating Expenses				
Supplies, Postage, and Contracted Services		11,925	11,925	0%
Total Operating Expenses	-	11,925	11,925	0%
Net Income (Loss) From Operations	102,340	111,558	9,218	9%
Net Income (Loss) Before Operating Transfers	102,340	111,558	9,218	9%
Transfers (Out)--Primary Government	(117,117)	(89,258)	27,859	-24%
Net Income (Loss)	(14,777)	22,300	37,077	-251%
Beginning Retained Earning	114,474	99,697	(14,777)	-13%
Ending Retained Earning	\$ 99,697	\$ 121,997	\$ 22,300	22%

The County's business-type activities consist of the Delinquent Tax Revolving Funds for various years and represent collection of delinquent taxes. There was no significant change in the revenues or expenses except the amount transferred to the General Fund did decrease by \$27,859 and the creation of the Foreclosure Fund which had revenues of \$24,770 and expenses of \$10,247.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's revenue budget was increased by \$912,742 (33% above the original budget) during fiscal year 2005. Actual General Fund revenue and other financing sources totaled \$3,578,875, which was \$140,275 below the final amended budget. The largest variances were: decrease in anticipated Federal and State grants and transfers from other funds.

The County's expenditure budget was increased by \$866,258 (31% over the original budget) during fiscal year 2005. There were some wide variances in individual expenditure accounts as a result of reclassifying fringe benefits from an "other" activity into the respective activities where the salaries and wages were recorded. There was also an increase in Health and Welfare costs during fiscal year 2005. Actual General Fund expenditures and other financing uses totaled \$3,617,922, which was \$54,744 less than the final amended budget. The largest variances were: increase in anticipated general government, judicial expenditures and capital outlay.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At the end of 2005, the County had \$1,746,441 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included land improvements for \$109,808, building and fixtures for \$28,862 and vehicles for \$65,299. See Note G of the notes to the financial statements for more information. No debt was incurred for the asset acquisitions.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total debt outstanding of \$72,790 in loans and vested employee benefits of \$135,307.

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factor in preparing the 2006 fiscal year budget:

State Shared Revenue--This represents Ontonagon County's share of the State's sales tax. Budgetary projections were uncertain as the State was undecided on their budget and were debating the Governor's proposal to shift county property tax collections from December to July. This proposal allowed the State to actually not make any revenue sharing payments to counties. Ontonagon County will set up a special revenue fund and collect the equivalent of one additional year of property taxes over the next three years and put these funds into this reserve account. We will then draw an amount equivalent to our revenue sharing payments each year until this fund is exhausted. The State would then restart revenue sharing payments once this fund is exhausted.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ontonagon County Clerk's Office at the Ontonagon County Courthouse, 725 Greenland Road, Ontonagon, Michigan 49953.

ONTONAGON COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash	\$ 829,413	\$ 18,261	\$ 847,674	\$ 846,464
Receivables (Net)				
Current Summer Property Taxes	214,463		214,463	
Unpaid Personal Property Taxes	12,798	402,499	415,297	7,492
Accounts	15,537		15,537	21,853
Interest	2,392		2,392	
Economic Development Loans	593,396		593,396	
Due From Townships	9,409		9,409	
Due From State	242,847		242,847	546,185
Due From Local Units of Governments	679		679	63,838
Inventories				914,956
Internal Balances	299,000	(299,000)	-	
Prepays	17,443		17,443	72,992
Total Current Assets	2,237,377	121,760	2,359,137	2,473,780
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	1,746,441		1,746,441	3,758,279
Total Noncurrent Assets	1,746,441	-	1,746,441	3,758,279
Total Assets	\$ 3,983,818	\$ 121,760	\$ 4,105,578	\$ 6,232,059
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 124,205		\$ 124,205	78,428
Due to State	3,072		3,072	75,841
Accrued Liabilities	43,790		43,790	
Redemption Certificate Fees		\$ (237)	(237)	
Deferred Revenue	1,275		1,275	
Total Current Liabilities	172,342	(237)	172,105	154,269
Noncurrent Liabilities				
Advances From State			-	499,247
Deferred Revenue			-	423,339
Loans Payable--Due Within One Year	8,563		8,563	
Loans Payable	64,227		64,227	
Vested Employee Benefits Payable	135,307		135,307	568,591
Total Noncurrent Liabilities	208,097	-	208,097	1,491,177
Total Liabilities	380,439	(237)	380,202	1,645,446
Net Assets				
Investment in Capital Assets--Net of Related Debt	1,673,651		1,673,651	3,758,279
Restricted for				
Family Counseling	2,500		2,500	
Act 302 Officer Training	2,254		2,254	
Economic Development Grants/Loans	902,979		902,979	
Special Revenue Programs	883,623		883,623	
Foreclosures		14,523	14,523	
County Road Projects				695,143
Building Renovations				36,303
Unrestricted	138,372	107,474	245,846	96,888
Total Net Assets	\$ 3,603,379	\$ 121,997	\$ 3,725,376	\$ 4,586,613

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			
					Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government								
Governmental Activities								
General Government	\$ 1,860,063	\$ 324,048	\$ 485,744		\$ (1,050,271)		\$ (1,050,271)	
Public Safety	1,243,497	117,806	283,674	-	(842,017)		(842,017)	
Public Works	596,423	101,123	307,338	\$ 148,393	(39,569)		(39,569)	
Health and Welfare	374,260	-	36,203		(338,057)		(338,057)	
Community and Economic Development	407,955	290,584	133,664	-	16,293		16,293	
Recreation and Culture	41,374	43,915	138		2,679		2,679	
Other	70,027				(70,027)		(70,027)	
Interest on Long-Term Debt	-				-		-	
Total Governmental Activities	4,593,599	877,476	1,246,761	148,393	(2,320,969)	\$ -	(2,320,969)	\$ -
Business-Type Activities								
Delinquent Tax Funds Combined	11,925	123,483				111,558	111,558	
Total Business-Type Activities	11,925	123,483	-	-	-	111,558	111,558	-
Total Primary Government	\$ 4,605,524	\$ 1,000,959	\$ 1,246,761	\$ 148,393	\$ (2,320,969)	\$ 111,558	\$ (2,209,411)	-
Component Units								
Road Commission	\$ 5,175,965	\$ 2,140,940	\$ 2,336,612	\$ 334,579				\$ (363,834)
Economic Development Corporation	86,680	30,107	13,487	-				(43,086)
Total Component Units	\$ 5,262,645	\$ 2,171,047	\$ 2,350,099	\$ 334,579	\$ -	\$ -	\$ -	\$ (406,920)
General Revenues								
Property Taxes					\$ 2,314,634		\$ 2,314,634	\$ 806,248
Unrestricted Investment Earnings					11,571		11,571	1,956
Rentals					1,950		1,950	
Miscellaneous					9,668		9,668	128,934
Transfers In (Out)					62,683	\$ (89,258)	(26,575)	26,575
Total General Revenues--Special Items and Transfers					2,400,506	(89,258)	2,311,248	963,713
Change in Net Assets					79,537	22,300	101,837	963,713
Net Assets--Beginning					3,523,842	99,697	3,623,539	4,029,820
Net Assets--Ending					\$ 3,603,379	\$ 121,997	\$ 3,725,376	\$ 4,586,613

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2005

EXHIBIT C

	SPECIAL REVENUE FUNDS					
	General	Public Transit	911 Service	Economic Development Revolving Loan	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Current Assets						
Cash	\$ (327,336)	\$ 116,873	\$ 300,626	\$ 307,191	\$ 432,059	\$ 829,413
Receivables						
Current Summer Taxes	214,463					214,463
Unpaid Personal Property Taxes	12,798					12,798
Accounts		6,992	8,235		310	15,537
Interest				2,392		2,392
Economic Development Loans				593,396		593,396
Due From Townships	9,409					9,409
Due From State	177,139	34,042	21,962		9,704	242,847
Due From Other Agencies	679					679
Prepaid Expense	13,779	3,664				17,443
Total Current Assets	100,931	161,571	330,823	902,979	442,073	1,938,377
Noncurrent Assets						
Long-Term Advances to Other Funds--Primary Government	299,000					299,000
Total Noncurrent Assets	299,000	-	-	-	-	299,000
Total Assets	\$ 399,931	\$ 161,571	\$ 330,823	\$ 902,979	\$ 442,073	\$ 2,237,377
LIABILITIES AND FUND EQUITY						
Current Liabilities						
Accounts Payable	\$ 95,160	\$ 8,115	\$ 15,980		\$ 4,950	\$ 124,205
Due to State of Michigan		3,072				3,072
Accrued Liabilities	26,338	17,252			200	43,790
Total Current Liabilities	121,498	28,439	15,980	\$ -	5,150	171,067
Noncurrent Liabilities						
Deferred Revenue	12,798			593,396	1,275	607,469
Total Liabilities	134,296	28,439	15,980	593,396	6,425	778,536
Fund Equity						
Fund Balances						
Reserved for						
Long-Term Advances	220,000					220,000
Family Counseling	2,500					2,500
Act 302 Officer Training	2,254					2,254
Economic Development Grants/Loans				309,583		309,583
Special Revenue Programs		133,132	314,843		384,624	832,599
Designated						-
Unreserved--Undesignated	40,881				51,024	91,905
Total Fund Equity	265,635	133,132	314,843	309,583	435,648	1,458,841
Total Liabilities and Fund Equity	\$ 399,931	\$ 161,571	\$ 330,823	\$ 902,979	\$ 442,073	\$ 2,237,377

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net
Assets of Governmental Activities on the Statement of Net Assets

Fund Balance--Total Governmental Funds	\$ 1,458,841
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,746,441
Revenues that do not provide current financial resources are not reported as revenue in the funds.	606,194
Certain liabilities, such as bonds payable, interest payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(208,097)
Total Net Assets	\$ 3,603,379

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2005

EXHIBIT D

SPECIAL REVENUE FUNDS						
	General	Public Transit	911 Service	Economic Development Revolving Loan Fund	Non-Major Governmental	Total Governmental Funds
Revenues						
Taxes and Penalties	\$ 1,965,187	\$ 195,759			\$ 154,205	\$ 2,315,151
Licenses and Permits	2,559					2,559
Federal Grants	380,910	62,020			67,382	510,312
State Grants	433,115	181,778	\$ 81,851		23,713	720,457
Contributions From Local Units	4,282					4,282
Charges for Services	324,262	72,512	93,300		17,040	507,114
Fines and Forfeits	4,688				18,411	23,099
Interest and Rentals	13,521	1,746		\$ 23,628	1,919	40,814
Other Revenue	74,654	2,665		119,582	144,107	341,008
Total Revenues	3,203,178	516,480	175,151	143,210	426,777	4,464,796
Expenditures						
Current						
General Government	1,763,501				54,510	1,818,011
Public Safety	944,004		258,534			1,202,538
Public Works	25,259	477,588			2,320	505,167
Health and Welfare	154,838				353,698	508,536
Community and Economic Development	7,624			265,756		273,380
Recreation and Cultural	24,070				16,549	40,619
Other	69,793				234	70,027
Capital Outlay	200,507	3,462				203,969
Debt Service						
Principal	8,563					8,563
Total Expenditures	3,198,159	481,050	258,534	265,756	427,311	4,630,810
Excess of Revenues Over (Under) Expenditures	5,019	35,430	(83,383)	(122,546)	(534)	(166,014)
Other Financing Sources (Uses)						
Interfund Transfers In--Primary Government	375,697				419,833	795,530
Interfund Transfers (Out)--Primary Government	(419,763)				(286,509)	(706,272)
Interfund Transfers (Out)--Component Unit				(26,575)		(26,575)
Total Other Financing Sources (Uses)	(44,066)	-	-	(26,575)	133,324	62,683
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(39,047)	35,430	(83,383)	(149,121)	132,790	(103,331)
Fund Balance (Deficit)--October 1, 2004	304,682	97,702	398,226	458,704	302,858	1,562,172
Fund Balance (Deficit)--September 30, 2005	\$ 265,635	\$ 133,132	\$ 314,843	\$ 309,583	\$ 435,648	\$ 1,458,841

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ (103,331)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities the costs of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add--Capital Outlay	203,969
Deduct--Depreciation Expense	(166,008)

Revenues earned, but not available for current resources, are not reported in the funds.

Economic Development--Net 2005 Loans Less Loan Repayments	146,174
Tax Revenues	(521)

Repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	8,563
--	-------

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures in
the funds.

Net (Increase) Decrease in Compensated Absences	<u>(9,309)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 79,537</u>
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The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2005

EXHIBIT E

ENTERPRISE FUNDS
BUSINESS-TYPE ACTIVITIES

	100% Tax Payment 2004	Non-Major Enterprise Funds	Total
<u>ASSETS</u>			
Current Assets			
Cash	\$ 394	\$ 17,867	\$ 18,261
Delinquent Taxes Receivable	326,825	74,207	401,032
Forfeiture Certificate Fee Receivable		1,467	1,467
Total Current Assets	327,219	93,541	420,760
Total Assets	\$ 327,219	\$ 93,541	\$ 420,760
<u>LIABILITIES</u>			
Current Liabilities			
Redemption Certificate Fees		\$ (237)	\$ (237)
Total Current Liabilities	\$ -	(237)	(237)
Noncurrent Liabilities			
Advance From General Fund	299,000	-	299,000
Total Noncurrent Liabilities	299,000	-	299,000
Total Liabilities	299,000	(237)	298,763
<u>NET ASSETS</u>			
Restricted Net Assets--Foreclosures		14,523	14,523
Unrestricted Net Assets	28,219	79,255	107,474
Total Net Assets	\$ 28,219	\$ 93,778	\$ 121,997

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Year Ended September 30, 2005

EXHIBIT F

	<u>ENTERPRISE FUNDS--BUSINESS-TYPE ACTIVITIES</u>		
	100% Tax Payment 2004	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Interest and Penalties on Taxes	\$ 28,219	\$ 70,494	\$ 98,713
Other Foreclosure Fees and Charges		24,770	24,770
Total Operating Revenues	28,219	95,264	123,483
Operating Expenses			
Supplies and Postage		1,678	1,678
Contract Services		10,247	10,247
Total Operating Expenses	-	11,925	11,925
Net Operating Income (Loss)			
Before Operating Transfers	28,219	83,339	111,558
Interfund Transfers			
Transfers (Out) to General Fund		(89,258)	(89,258)
Change in Net Assets	28,219	(5,919)	22,300
Total Net Assets--October 1, 2004		99,697	99,697
Total Net Assets--September 30, 2005	\$ 28,219	\$ 93,778	\$ 121,997

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2005

EXHIBIT G

	ENTERPRISE FUNDS--BUSINESS-TYPE ACTIVITIES		
	100% Tax Payment 2004	Non-Major Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities			
Interest and Penalties on Taxes	\$ 28,219	\$ 70,494	\$ 98,713
Other Foreclosure Fees and Charges		24,770	24,770
Operating Expenses		(11,925)	(11,925)
Delinquent Taxes Collected	371,863	288,860	660,723
Delinquent Taxes Purchased	(698,688)		(698,688)
Net Cash Provided by Operating Activities	(298,606)	372,199	73,593
Cash Flows From Noncapital Financing Activities			
Advances From Other Funds	550,000	-	550,000
Return of Advances From Other Funds	(251,000)	(338,000)	(589,000)
(Increase) or Decrease in Forfeiture Certificate Fee Receivable		(304)	(304)
Increase or (Decrease) in Redemption Certificate Payable		(307)	(307)
Transfers In (Out)		(89,258)	(89,258)
Net Cash Provided by Noncapital Financing Activities	299,000	(427,869)	(128,869)
Net Increase (Decrease) in Cash and Cash Equivalents	394	(55,670)	(55,276)
Cash and Cash Equivalents at Beginning of Year	-	73,537	73,537
Cash and Cash Equivalents at End of Year	\$ 394	\$ 17,867	\$ 18,261
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	\$ 28,219	\$ 83,339	\$ 111,558
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
(Increase) Decrease in Taxes Receivable	(326,825)	288,860	(37,965)
Net Cash Provided by Operating Activities	\$ (298,606)	\$ 372,199	\$ 73,593

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
September 30, 2005**

EXHIBIT H

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 393,145
Total Assets	<u>\$ 393,145</u>
Liabilities	
Due to Schools	\$ (11,931)
Due to Townships	(94)
Due to Villages	1,668
Due to State of Michigan	384,973
Undistributed Interest	58
Undistributed Penal Fines	11,375
Undistributed Tax Collections	1,793
Other Trust Payable	<u>5,303</u>
Total Liabilities	<u>\$ 393,145</u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2005

EXHIBIT I

	MAJOR COMPONENT UNIT	NONMAJOR COMPONENT UNIT	
	Road Commission	Economic Development Corporation	Total
<u>ASSETS</u>			
Current Assets			
Cash	\$ 713,273	\$ 133,191	\$ 846,464
Receivables			
Taxes	7,492		7,492
Accounts	21,853		21,853
Due From State	546,185		546,185
Due From Townships	63,838		63,838
Inventories	914,956		914,956
Prepays	72,992		72,992
Total Current Assets	2,340,589	133,191	2,473,780
Noncurrent Assets			
Capital Assets (Net)	3,758,279		3,758,279
Total Noncurrent Assets	3,758,279	-	3,758,279
Total Assets	\$ 6,098,868	\$ 133,191	\$ 6,232,059
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 78,428		\$ 78,428
Accrued Liabilities	75,841		75,841
Total Current Liabilities	154,269	\$ -	154,269
Noncurrent Liabilities			
Advances From State	499,247		499,247
Long-Term Advances From			
Deferred Revenue	423,339		423,339
Vested Employee Benefits Payable	568,591		568,591
Total Noncurrent Liabilities	1,491,177	-	1,491,177
Total Liabilities	1,645,446	-	1,645,446
Net Assets			
Investment in Capital Assets	3,758,279		3,758,279
Restricted for County Road Projects	695,143		695,143
Restricted for Building Renovations		36,303	36,303
Unrestricted		96,888	96,888
Total Net Assets	\$ 4,453,422	\$ 133,191	\$ 4,586,613

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended September 30, 2005

EXHIBIT J

<u>Functions/Programs</u>	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road	Economic Development Corporation	Total
Road Commission							
Public Works	\$ 5,175,965	\$ 2,140,940	\$ 2,336,612	\$ 334,579	\$ (363,834)		\$ (363,834)
Total Road Commission	5,175,965	2,140,940	2,336,612	334,579	(363,834)	\$ -	(363,834)
Economic Development Corporation							
Community and Economic Development	86,680	30,107	13,487			(43,086)	(43,086)
Total Economic Development Corporation	\$ 86,680	\$ 30,107	\$ 13,487	\$ -	-	(43,086)	(43,086)
General Revenues							
Property Taxes					806,248		806,248
Investment Earnings						1,956	1,956
Other Revenues					128,934		128,934
Transfers							
Interfund Transfers In (Out)						26,575	26,575
Total General Revenues--Special Items and Transfers					935,182	28,531	963,713
Change in Net Assets					571,348	(14,555)	556,793
Net Assets--Beginning of Year					3,882,074	147,746	4,029,820
Net Assets--End of Year					\$ 4,453,422	\$ 133,191	\$ 4,586,613

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

The accounting policies of Ontonagon County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ontonagon County:

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ontonagon County is a municipal corporation governed by an elected five member board of commissioners. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units discussed in Note B are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the government-wide financial statements (Exhibits A and B) include the financial data of the Ontonagon County Road Commission and the Ontonagon County Economic Development Corporation (EDC). These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Each discretely presented component unit is reported in a separate column in the Component Units' Statement of Net Assets (Exhibit I) and the Statement of Activities (Exhibit J).

Discretely Presented Component Units

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the county Road Fund.

The Ontonagon County Economic Development Corporation (EDC), was established in 1976 pursuant to the provisions of Public Act (PA) 338 of 1974, as amended. The EDC is included as part of the Ontonagon County entity for financial reporting purposes because its board is appointed by the Ontonagon County Board of Commissioners. A significant portion of its operating budget is funded by county appropriations. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county. The financial statements of the County Economic Development Corporation are included in the special revenue fund category.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Ontonagon County Economic Development Corporation
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

Ontonagon County Road Commission
415 Spar Street
Ontonagon, Michigan 49953

Jointly Governed Organization--District Health Department

Ontonagon County, in conjunction with Baraga, Gogebic, Houghton and Keweenaw counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation. Member counties' percentages and dollar share of the net operating budget for 2005 were:

Ontonagon	12.80%	\$ 51,142
Baraga	12.90%	51,542
Gogebic	25.50%	101,883
Houghton	43.50%	173,801
Keweenaw	<u>5.30%</u>	<u>21,175</u>
Total	<u>100.00%</u>	<u>\$399,543</u>

Ontonagon County's 2005 actual appropriation to the District Health Department was \$51,142 as the counties of Ontonagon, Gogebic and Houghton increased their budget allocations to amounts over the approved funding formula. An additional \$3,174 was appropriated from the State shared cigarette tax revenues.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly Governed Organization--Community Mental Health Authority

Ontonagon County, in conjunction with Baraga, Houghton and Keweenaw counties, has created the Copper Country Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended, (Code). During 1996, the jointly created board became a community mental health authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County as a discretely presented component unit. The funding of the Mental Health Authority operations by the member counties is based on an agreement between the Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and mental health program costs.

The board approved member county appropriations for 2005 were as follows:

Ontonagon	\$ 48,814
Baraga	33,795
Houghton	164,495
Keweenaw	<u>8,500</u>
Total	<u>\$255,604</u>

Ontonagon County's 2005 appropriation to the Mental Health Board was \$48,814.

Basis of Presentation--Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county reports the following major governmental funds:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the government's primary operating fund. This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Public Transit

This fund is used to account for the operations of the transit. Revenues are primarily derived from grants, a special voted property tax levy and user fees. The fund includes the operating expenditures of the county's bus transit system.

911 Services

This fund is used to account for the operations of the county-wide emergency 911 telephone service plan. Revenues are derived from the State's wireless 911 funding allocations and the 4% surcharge on all phone lines servicing Ontonagon County. The fund includes all operating and capital expenditures relative to providing county-wide emergency 911 service.

Economic Development Revolving Loan Fund

This fund is used to account for the activity of the economic development loan program.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

Enterprise Funds

100% Tax Payment Fund 2004--This fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the county's issuance of debt when needed (to provide cash flow for the purchase of the taxes) and for the resulting debt service payment.

Enterprise funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The principal operating revenues of the delinquent tax fund are collection fees for delinquent taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

FIDUCIARY FUNDS

Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are by nature custodial; therefore, operation results are not measured.

Ontonagon County applies all Accounting Standards Board (ASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value based on quoted market prices.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Property Taxes

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

The 2004 State equalized valuation of Ontonagon County amounted to \$291,810,666 and the taxable valuation is \$189,608,895, on which ad valorem taxes of 6.3046 mills were levied for county operating purposes; .4953 mills for the county commission on aging for the maintenance and expansion of its present programs for senior citizens; 1.000 mills for county transit system operating purposes; .2899 mills for Gogebic/Ontonagon Community Action programs in Ontonagon County; and 4.8048 mills for county road commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act. The current tax revenues, reflected in the county's 2004 financial statements, consist of the amount of the 2004 tax levy collected by the local unit treasurers prior to March 1, 2005.

Current Summer Property Taxes Receivable

In accordance with the provisions of Michigan Public Act 357 of 2004, in the summer of 2005, the county levied an additional 2.1733 mills on the county's 2005 taxable valuation of \$201,059,714. The total levy of \$423,572 has been recorded as 2005 General Fund revenue although \$214,463 remained uncollected as of September 30, 2005.

Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$12,798, recorded in the General Fund, and \$7,492 recorded in the component unit (Road Commission) financial statements, consist of unpaid personal property taxes for the years 2000 through 2004. The county's policy is to recognize revenue from delinquent property taxes when collected. Accordingly, the delinquent taxes receivable are recorded in the county's financial statements with an offsetting credit to deferred revenue--taxes.

Enterprise Funds

The taxes receivable--delinquent of \$401,032 which are recorded in the Enterprise Funds, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Ontonagon County by the County's 100% Tax Payment Funds for the years 2002 (\$5,991), 2003 (\$68,216) and 2004 (\$326,825). The County's 100% Tax Payment Funds are financed entirely by advances from the County's General Fund. Accordingly, none of the delinquent taxes are pledged for the payment of notes.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

The component unit (Road Commission) inventories, consisting of road materials of \$657,271 and equipment parts and materials of \$257,685, are priced at cost based on the average unit cost method. Inventory items are charged to road construction and maintenance, and to equipment repairs and operations, as used.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 permits major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. Beginning with the fiscal year ended September 30, 2003, the Ontonagon County Road Commission has capitalized each current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has not retroactively capitalized the major infrastructure assets as of September 30, 2005, as permitted by GASB No. 34. For the Ontonagon County Road Commission, the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34 will be October 1, 2007.

Capital assets used in governmental fund type operations are accounted for in the governmental activities column of the government-wide financial statements.

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the operating fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating fund equity.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation (Continued)

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12-50 years

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cost Allocation Plans

Ontonagon County has prepared and submitted to the Passenger Transportation Division (PTD), Michigan Department of Transportation (MDOT), a central services cost allocation plan to document those General Fund costs which should be allocated to the various Federal and State grant programs. This plan has been adhered to in the preparation of the financial statements. The amount of \$15,442 was paid to the General Fund by the Public Transit Fund for the 2005 fiscal year central services charges.

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE B--LEGAL COMPLIANCE

Budgets and Budgetary Accounting

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund and County Economic Development Corporation Fund whose budgets are adopted and administered by the board of county road commissioners and the board of county economic development corporation, respectively. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets are adopted at the activity level and control is exercised at that level. The county board of commissioners has authorized the county's chief administrative officer (county clerk) to make General Fund budget transfers between activities in September, when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. Also, the board of road commissioners has authorized its chief administrative officer and fiscal officer to amend the County Road Fund budget, when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers (activities). Budgeted revenues and expenditures, as presented in Exhibits K, L, M, and N, include the original budget and the final amended budget which contains authorized amendments to the original budgets as adopted.

In noncompliance with Public Act 2 of 1968, as amended, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the special revenue funds as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
Major Special Revenue Fund			
Public Transit			
Public Works	\$ 470,504	\$ 477,588	\$ 7,084
Non-Major Special Revenue Funds			
Law Library			
General Government	13,000	15,260	2,260
Social Welfare			
Health and Welfare	1,085	1,105	20
Child Care Probate			
Health and Welfare	54,366	56,620	2,254

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits and investments are in accordance with statutory authority.

The county has designated five banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 20 of 1943, as amended, and includes all of the above investments.

At year end, the county's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Uninsured and Uncollateralized	\$ 829,413	\$ 18,261	\$ 393,145	\$ 1,240,819	\$ 846,464
Total	\$ 829,413	\$ 18,261	\$ 393,145	\$ 1,240,819	\$ 846,464

The bank balance of the primary government's deposits is \$1,219,582 of which \$363,681 is covered by Federal depository insurance.

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The investment policy does not contain any specific provisions intended to limit the exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that, changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by not participating any investments.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the county contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--ACCOUNTS RECEIVABLE

Special Revenue Funds

The accounts receivable recorded in special revenue funds consist of the Public Transit Fund billings to other agencies for transit services provided to those agencies on a contractual basis in the amount of \$6,992, the 911 Service Funds receivable is from phone companies for their collections of the 4% operating surcharges through September of 2005 in the amount of \$8,235 and a reimbursement of \$310 to the Law Library Fund.

Component Unit

The accounts receivable recorded in the Road Commission consist of sundry receivables. The receivables were collected within 60 days after the fiscal year end.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE E--ADVANCES TO OTHER FUNDS--GENERAL FUND

The county's present policy is to finance the working capital requirements of their 100% Tax Payment Funds (Enterprise) entirely with cash advances from the General Fund. At September 30, 2005, a total of \$299,000 was advanced of which approximately \$79,000 was available to be returned to the General Fund within 60 days of period end. Accordingly, the balance of \$220,000 is recorded as an amount reserved for long-term advances in the General Fund's fund balance.

NOTE F--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Capital Assets--Primary Government

	Account Balances 10/01/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land	\$ 50,300			\$ 50,300
Subtotal	50,300	\$ -	\$ -	50,300
Capital Assets Being Depreciated				
Land Improvements	116,380	109,808		226,188
Buildings and Fixtures	2,189,880	28,862		2,218,742
Office and Other Equipment	35,881			35,881
Vehicles	554,686	65,299		619,985
Total	2,896,827	203,969	-	3,100,796
Less Accumulated Depreciation				
Land Improvements	1,327	11,310		12,637
Buildings and Fixtures	883,937	64,779		948,716
Office and Other Equipment	8,253	8,253		16,506
Vehicles	345,130	81,666		426,796
Total	1,238,647	166,008	-	1,404,655
Net Capital Assets Being Depreciated	1,658,180	203,969	166,008	1,696,141
Total Capital Assets	<u>\$ 1,708,480</u>	<u>\$ 203,969</u>	<u>\$ 166,008</u>	<u>\$ 1,746,441</u>

The county policy is to capitalize assets with a useful life greater than one year and a value of \$5,000 or more.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 37,108
Public Safety	36,590
Public Works	91,256
Health and Welfare	299
Recreation and Culture	755
	<u> </u>
Total Depreciation Expense	<u><u>\$ 166,008</u></u>

Capital Assets--Road Commission (Component Unit)

	Account Balances 10/01/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Infrastructure--Land	\$ 10,412	\$ 3,000		\$ 13,412
Infrastructure--Land Improvements	39,026			39,026
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	49,438	3,000	\$ -	52,438
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital Assets Being Depreciated				
Depletable Assets	1,408			1,408
Buildings	2,244,934	3,055		2,247,989
Road Equipment	5,978,451	687,875	322,689	6,343,637
Shop Equipment	140,881			140,881
Office Equipment	68,021	888		68,909
Engineer's Equipment	19,355			19,355
Infrastructure--Bridges	11,952			11,952
Infrastructure--Roads	1,188,563	693,635		1,882,198
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	9,653,565	1,385,453	322,689	10,716,329
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Less Accumulated Depreciation				
Building	1,133,100	61,746		1,194,846
Road Equipment	5,273,332	378,225	296,484	5,355,073
Shop Equipment	123,354	4,489		127,843
Office Equipment	52,723	4,149		56,872
Engineer's Equipment	18,369	383		18,752
Infrastructure--Bridges		1,494		1,494
Infrastructure--Roads	107,038	148,570		255,608
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	6,707,916	599,056	296,484	7,010,488
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Capital Assets Being Depreciated	2,945,649	1,385,453	625,261	3,705,841
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Capital Assets	<u><u>\$2,995,087</u></u>	<u><u>\$1,388,453</u></u>	<u><u>\$ 625,261</u></u>	<u><u>\$3,758,279</u></u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 378,225
Indirect Equipment	
Shop Building	10,413
Storage Building	48,494
Shop Equipment	4,489
Net Administrative Expense	
Buildings	2,839
Office Equipment and Furniture	4,149
Engineers Equipment	383
Infrastructure	<u>150,064</u>
Total Depreciation Expense	<u><u>\$ 599,056</u></u>

NOTE G--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Ontonagon County, and the changes therein, may be summarized as follows:

Primary Government Long-Term Debt

	<u>Balances</u> <u>10/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/05</u>	<u>Due in One</u> <u>Year</u>
<u>Governmental Activities</u>				
Loans Payable				
Michigan Strategic Fund Renaissance Park				
Fund loan for infrastructure improvements at				
the White Pine Industrial Park, \$191,700 at				
5% payable as detailed below.	\$ 81,354	\$ (8,564)	\$ 72,790	\$ 8,563
Accrued Employee Benefits (See Note I)	<u>125,996</u>	<u>9,311</u>	<u>135,307</u>	
Total Long-Term Debt--Primary Government	<u><u>\$ 207,350</u></u>	<u><u>\$ 747</u></u>	<u><u>\$ 208,097</u></u>	<u><u>\$ 8,563</u></u>

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/05</u>
Accrued Employee Benefits (See Note I)	<u>\$584,954</u>	<u>\$ (16,363)</u>	<u>\$ 568,591</u>
Total	<u><u>\$584,954</u></u>	<u><u>\$ (16,363)</u></u>	<u><u>\$ 568,591</u></u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The Michigan Strategic Fund (MSF) loan was made jointly to Ontonagon County and Carp Lake Township (recipients) in accordance with an Economic Development Financing Agreement. A letter from the Michigan Economic Development Corporation to the Ontonagon County Economic Development Corporation dated June 3, 2004 provides, in part, as follows: The information submitted is satisfactory, and we now consider this project complete and closed. Sufficient documentation regarding the job creation has been received so that the interest on the loan has been waived and the maximum credit (50%) has been awarded to the county/township. Even though this project is closed, the county and the township continue to be obligated for repayment of the loan portion of the agreement which amounted to \$95,850, payable in quarterly installments of \$2,140.86 beginning effective August 1, 2004, to the year 2014. The loan is secured by a revenue sharing pledge agreement, the following is a schedule of the principal payments.

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Fiscal</u> <u>Year</u>	<u>Principal</u>
2006	\$ 8,564	2011	\$ 8,564
2007	8,564	2012	8,563
2008	8,563	2013	8,564
2009	8,564	2014	4,281
2010	8,563		
Total			<u>\$ 72,790</u>

NOTE H--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The County and Road Commission (component unit) has an accrued liability to their employees for accumulated vacation and vested sick leave benefits as of September 30, 2005, as follows:

	<u>Vacation</u>	<u>Sick Leave</u>	<u>Total</u>
Primary Government			
County General Employees	\$ 51,782	\$ 21,482	\$ 73,264
Sheriff Department Employees	<u>39,424</u>	<u>22,619</u>	<u>62,043</u>
Total Primary Government	<u>\$ 91,206</u>	<u>\$ 44,101</u>	<u>\$135,307</u>
Component Unit--Road Commission			
Road Commission Employees	<u>\$ 69,533</u>	<u>\$ 499,058</u>	<u>\$568,591</u>
Total Component Unit	<u>\$ 69,533</u>	<u>\$ 499,058</u>	<u>\$568,591</u>
Total Accrued Employee Benefits Payable--Reporting Entity	<u>\$160,739</u>	<u>\$ 543,159</u>	<u>\$703,898</u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

VACATION BENEFIT POLICIES

County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a biweekly basis. The county has not established a formal policy regarding a maximum authorized accumulation of vacation hours.

Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except for those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

SICK LEAVE BENEFIT POLICIES

County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with a maximum accumulation of 100 days. The county's policy for county general and public transit employees provides that upon death, retirement, or voluntary termination employees shall be paid for 20% of all unused sick days to a maximum of 100 days. Sheriff department employees are paid for 50% of their accumulated sick leave benefits when they separate from employment, except when dismissed for cause, in which case, they are entitled to payment of 25% of their accumulated benefits.

Road Commission Employees

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE I--DEFERRED COMPENSATION

The County and Road Commission offers all its employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (county and road commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County or Road Commission's financial statements.

NOTE J--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Ontonagon County and the two component units, the Ontonagon County Economic Development Corporation (EDC) and the Ontonagon County Road Commission have separate agent multiple-employer defined benefit pension plans with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The plan's pension service requirements are computed using credited service at the time of termination of membership multiplied by the sum of 2% for county general and nonunion employees, 2.5% for sheriff department employees, 2% for EDC employees and 2.25% for road commission employees times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County and Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The calendar year 2004 required pension contributions were 12.42%, 14.11%, 11.27%, 15.95% and 20.10% of covered payroll for the county as follows: general group, sheriff, nonunion, EDC and the Road Commission, respectively.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT PLANS (Continued)

Annual Pension Cost

For the calendar year ended December 31, 2004, the annual pension costs were \$177,202 for the county, \$4,531 for the EDC, and \$441,159 for the Road Commission which was equal to their required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)			Percentage of APC Contributed			Percentage of APC Contributed		
	County	EDC	Road	County	EDC	Road	County	EDC	Road
2002	\$ 129,707	\$ 4,478	\$ 398,607	100%	100%	100%	\$0	\$0	\$0
2003	157,094	4,531	416,971	100%	100%	100%	\$0	\$0	\$0
2004	177,202	5,071	441,159	100%	100%	100%	\$0	\$0	\$0

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2002						
General	\$3,985,661	\$ 5,030,211	\$ (1,044,550)	79%	\$ 1,378,927	76%
EDC	48,810	60,835	(12,025)	80%	28,250	43%
Road	5,738,460	10,354,113	(4,615,653)	55%	2,007,959	230%
2003						
General	4,305,536	5,459,056	(1,153,520)	79%	1,323,550	87%
EDC	58,482	69,261	(10,779)	84%	29,290	37%
Road	6,433,656	11,428,579	(4,994,923)	56%	1,903,230	262%
2004						
General	4,589,928	5,860,425	(1,270,497)	78%	1,415,133	90%
EDC	68,113	78,417	(10,304)	87%	31,793	32%
Road	6,989,561	12,980,945	(5,991,384)	54%	1,938,943	309%

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees and spouses for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan for the retirees and their spouses. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992, and \$5,000 for those retired after that date.

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2005, 16 retirees were eligible for the post-retirement health care benefits at a cost of \$125,147. As described more fully in Note M, the Road Commission self-insures for life insurance benefits, which covered 9 retirees for \$1,500, 12 retirees for \$5,000 and 7 retirees for \$10,000 during the year ended September 30, 2005.

NOTE L--RISK MANAGEMENT

The County and Road Commission (component unit) is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

County General

The county board of commissioners have purchased commercial insurance for property, liability, errors and omissions, medical benefit claims and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission has purchased commercial insurance for medical benefit claims, self-insure for employee group life coverage as detailed in Note M, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial and pool insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE L--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member on October 1, 2001.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE M--RESERVE FOR SELF-INSURANCE--ROAD COMMISSION

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year end.

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2005 is as follows:

Reserve Balance--October 1, 2004	\$121,998
Less: 2004/2005 Death Benefit Payment	<u>(1,500)</u>
Reserve Balance--September 30, 2005	<u><u>\$120,498</u></u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE N--TRANSFERS IN AND TRANSFERS (OUT)

The 2005 operating transfers from Exhibits D, F and J can be summarized as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$375,697	General	\$419,763
Nonmajor Governmental	419,833	Nonmajor Governmental	286,509
		100% Tax Payment	<u>89,258</u>
Total Primary Government	<u>\$795,530</u>	Total Primary Government	<u>\$795,530</u>
Component Unit		Primary Government	
Economic Development Corporation	\$ 26,575	Economic Development	
		Revolving Loan	<u>\$ 26,575</u>
Total Component Unit	<u>\$ 26,575</u>	Total Primary Government	<u>\$ 26,575</u>
Total Reporting Entity	<u>\$822,105</u>		<u>\$822,105</u>

NOTE O--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2005, the Federal Aid received and expended by the Road Commission was \$0 for contracted projects and \$37,449 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed for the calendar year ended September 30, 2005.

NOTE P--STATE TRUNKLINE MAINTENANCE REVENUE AND EXPENDITURES

The \$226,380 difference between the State trunkline maintenance revenues of \$1,864,031 and expenditures of \$1,637,651 consists of an amount received from MDOT during fiscal year ending September 30, 2005 pursuant to an audit report #2003-070 for fiscal year 2001 and 2002.

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended September 30, 2005

EXHIBIT K

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes and Penalties	\$ 1,520,580	\$ 1,944,152	\$ 1,965,187	\$ 21,035
Licenses and Permits	4,250	4,250	2,559	(1,691)
Federal Grants	267,915	437,621	380,910	(56,711)
State Grants	344,423	501,906	433,115	(68,791)
Township Contributions	-	-	4,282	4,282
Charges for Services	327,005	327,005	324,262	(2,743)
Fines and Forfeits	2,500	2,500	4,688	2,188
Interest and Rentals	17,100	17,100	13,521	(3,579)
Other Revenue	31,982	46,440	74,654	28,214
Total Revenues	2,515,755	3,280,974	3,203,178	(77,796)
Expenditures				
Current				
General Government	1,147,705	1,785,746	1,763,501	22,245
Public Safety	674,487	951,021	944,004	7,017
Public Works	15,417	25,490	25,259	231
Health and Welfare	150,201	155,704	154,838	866
Community and Economic Development	7,624	7,624	7,624	-
Recreation and Cultural	19,150	24,170	24,070	100
Other	749,025	70,425	69,793	632
Capital Outlay	29,235	224,160	200,507	23,653
Debt Service--Principal	8,564	8,563	8,563	-
Total Expenditures	2,801,408	3,252,903	3,198,159	54,744
Excess of Revenues Over (Under) Expenditures	(285,653)	28,071	5,019	(23,052)
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	290,653	438,176	375,697	(62,479)
Interfund Transfers (Out)	(5,000)	(419,763)	(419,763)	-
Total Other Financing Sources (Uses)	285,653	18,413	(44,066)	(62,479)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	46,484	(39,047)	(85,531)
Fund Balance--October 1, 2004	304,682	304,682	304,682	-
Fund Balance--September 30, 2005	\$ 304,682	\$ 351,166	\$ 265,635	\$ (85,531)

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
PUBLIC TRANSIT--MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2005

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 189,850	\$ 189,850	\$ 195,759	\$ 5,909
Federal Grants	150,728	150,728	62,020	(88,708)
State Grants	219,682	219,682	181,778	(37,904)
Charges for Services	69,750	74,432	72,512	(1,920)
Interest and Rents	1,000	1,000	1,746	746
Other			2,665	2,665
Total Revenues	631,010	635,692	516,480	(119,212)
Expenditures				
Public Works	465,822	470,504	477,588	(7,084)
Capital Outlay	121,000	121,000	3,462	117,538
Total Expenditures	586,822	591,504	481,050	110,454
Excess of Revenues Over (Under)				
Expenditures	44,188	44,188	35,430	(8,758)
Fund Balances--October 1, 2004	97,702	97,702	97,702	-
Fund Balances--September 30, 2005	\$ 141,890	\$ 141,890	\$ 133,132	\$ (8,758)

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
911 SERVICE--MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2005

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 68,800	\$ 68,800	\$ 81,851	\$ 13,051
Charges for Services	105,000	105,000	93,300	(11,700)
Total Revenues	173,800	173,800	175,151	1,351
Expenditures				
Public Safety	202,079	264,079	258,534	5,545
Total Expenditures	202,079	264,079	258,534	5,545
Excess of Revenues Over (Under) Expenditures	(28,279)	(90,279)	(83,383)	6,896
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(28,279)	(90,279)	(83,383)	6,896
Fund Balances--October 1, 2004	398,226	398,226	398,226	-
Fund Balances--September 30, 2005	<u>\$ 369,947</u>	<u>\$ 307,947</u>	<u>\$ 314,843</u>	<u>\$ 6,896</u>

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT REVOLVING LOAN FUND
For the Year Ended September 30, 2005

EXHIBIT N

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Interest and Rents	\$ 16,000	\$ 16,000	\$ 23,628	\$ 21,478
Other	116,400	116,400	119,582	3,182
Total Revenues	132,400	132,400	143,210	10,810
Expenditures				
Community and Economic Development	-	265,756	265,756	-
Total Expenditures	-	265,756	265,756	-
Excess of Revenues Over (Under)				
Expenditures	132,400	(133,356)	(122,546)	10,810
Other Financing Sources (Uses)				
Operating Transfers (Out)--Component Unit	(22,070)	(26,576)	(26,575)	(1)
Total Other Financing Sources (Uses)	(22,070)	(26,576)	(26,575)	-
Excess of Revenues and Other				
Sources Over (Under)				
Expenditures and Other Uses	110,330	(159,932)	(149,121)	10,811
Fund Balances--October 1, 2004	458,704	458,704	458,704	-
Fund Balances--September 30, 2005	<u>\$ 569,034</u>	<u>\$ 298,772</u>	<u>\$ 309,583</u>	<u>\$ 10,811</u>

**ONTONAGON COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2005**

EXHIBIT O

SPECIAL REVENUE FUNDS--NON-MAJOR

ASSETS

	Friend of the Court	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	Law Library	County Library Board
Cash	\$ 7,322	\$ 20,644	\$ 11,002	\$ 51,024	\$ 20,236	\$ 44,824	\$ 2,208	
Accounts Receivable							310	
Due From State of Michigan								
Total Assets	\$ 7,322	\$ 20,644	\$ 11,002	\$ 51,024	\$ 20,236	\$ 44,824	\$ 2,518	\$ -

LIABILITIES AND FUND BALANCES

Liabilities								
Accounts Payable							\$ 2,505	
Stumpage Deposits Payable		\$ 200						
Deferred Revenue--Other								
Total Liabilities	\$ -	200	\$ -	\$ -	\$ -	\$ -	2,505	\$ -
Fund Balances								
Unreserved and Undesignated	7,322	20,444	11,002	51,024	20,236	44,824	13	-
Total Fund Balances	7,322	20,444	11,002	51,024	20,236	44,824	13	-
Total Liabilities and Fund Balances	\$ 7,322	\$ 20,644	\$ 11,002	\$ 51,024	\$ 20,236	\$ 44,824	\$ 2,518	\$ -

**ONTONAGON COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
September 30, 2005**

**EXHIBIT O
(CONTINUED)**

SPECIAL REVENUE FUNDS--NON-MAJOR

ASSETS

	Housing Rehabilitation Grants		Drug Law Enforcement	Revenue Sharing	Social Welfare	Probate Child Care	Veterans' Trust	Carl Thornton Endowment	Total
	2003-2004	2005-2006							
Cash		\$ 394	\$ 233	\$ 212,257		\$ 1,289	\$ (335)	\$ 60,961	\$ 432,059
Accounts Receivable									310
Due From State of Michigan		1,170				7,733	801		9,704
Total Assets	\$ -	\$ 1,564	\$ 233	\$ 212,257	\$ -	\$ 9,022	\$ 466	\$ 60,961	\$ 442,073

LIABILITIES AND FUND BALANCES

Liabilities									
Accounts Payable						\$ 1,455	\$ 300	\$ 690	\$ 4,950
Stumpage Deposits Payable									200
Deferred Revenue--Other		\$ 1,275							1,275
Total Liabilities	\$ -	1,275	\$ -	\$ -	\$ -	1,455	300	690	6,425
Fund Balances									
Unreserved and Undesignated	-	289	233	212,257	-	7,567	166	60,271	435,648
Total Fund Balances	-	289	233	212,257	-	7,567	166	60,271	435,648
Total Liabilities and Fund Balances	\$ -	\$ 1,564	\$ 233	\$ 212,257	\$ -	\$ 9,022	\$ 466	\$ 60,961	\$ 442,073

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2005

EXHIBIT P

SPECIAL REVENUE FUNDS--NON-MAJOR FUNDS							
	Friend of the Court	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	County Library Board
Revenues							
Taxes					\$ 57,094	\$ 97,111	
Federal Grants							
State Grants							
Charges for Services	\$ 650		\$ 15,190				
Fines and Forfeits						\$ 2,000	\$ 16,411
Interest and Rents			154				138
Other						2,744	
Total Revenues	650	\$ -	15,344	\$ -	57,094	97,111	16,549
Expenditures							
Current							
General Government			8,839				15,260
Public Works							
Health and Welfare					52,999	107,716	
Recreation and Cultural							16,549
Other		234					
Total Expenditures	-	234	8,839	-	52,999	107,716	16,549
Excess of Revenues Over (Under) Expenditures	650	(234)	6,505		4,095	(10,605)	-
Other Financing Sources (Uses)							
Operating Transfers In--Primary Government							10,100
Operating Transfers (Out)--Primary Government	(1,037)			(135,606)			
Total Other Financing Sources (Uses)	(1,037)	-	-	(135,606)	-	-	10,100
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(387)	(234)	6,505	(135,606)	4,095	(10,605)	(416)
Fund Balances--October 1, 2004	7,709	20,678	4,497	186,630	16,141	55,429	429
Fund Balances--September 30, 2005	\$ 7,322	\$ 20,444	\$ 11,002	\$ 51,024	\$ 20,236	\$ 44,824	\$ 13

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2005

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS--NON-MAJOR FUNDS								
	Housing Rehabilitation Grants		Drug Law	Revenue	Social	Probate	Veterans'	Carl	
	2003-04	2005-06	Enforcement	Sharing	Welfare	Child Care	Trust	Thornton Endowment	Total
Revenues									
Taxes									\$ 154,205
Federal Grants	\$ 63,782	\$ 1,170				\$ 2,430			67,382
State Grants						22,864	\$ 849		23,713
Charges for Services	900	300							17,040
Fines and Forfeits									18,411
Interest and Rents				\$ 1,627					1,919
Other	63,032	5,680				10,060		\$ 62,591	144,107
Total Revenues	127,714	7,150	\$ -	1,627	\$ -	35,354	849	62,591	426,777
Expenditures									
Current									
General Government				30,411					54,510
Public Works								2,320	2,320
Health and Welfare	127,644	6,931			1,105	56,620	683		353,698
Recreation and Cultural									16,549
Other									234
Total Expenditures	127,644	6,931	-	30,411	1,105	56,620	683	2,320	427,311
Excess of Revenues Over (Under)									
Expenditures	70	219	-	(28,784)	(1,105)	(21,266)	166	60,271	(534)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government		70		389,663		20,000			419,833
Operating Transfers (Out)--Primary Government	(70)			(148,622)	(1,174)				(286,509)
Total Other Financing Sources (Uses)	(70)	70	-	241,041	(1,174)	20,000	-	-	133,324
Excess of Revenues and Other Sources Over (Under)									
Expenditures and Other Uses	-	289	-	212,257	(2,279)	(1,266)	166	60,271	132,790
Fund Balances--October 1, 2004	-	-	233	-	2,279	8,833	-	-	302,858
Fund Balances--September 30, 2005	\$ -	\$ 289	\$ 233	\$ 212,257	\$ -	\$ 7,567	\$ 166	\$ 60,271	\$ 435,648

ONTONAGON COUNTY
COMBINING SCHEDULE OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
September 30, 2005

EXHIBIT Q

	BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS				
	100% TAX PAYMENT FUNDS				Total Non-Major Enterprise Funds
	Foreclosure Fund	2001	2002	2003	
<u>ASSETS</u>					
Current Assets					
Cash	\$ 14,523		\$ 67	\$ 3,277	\$ 17,867
Delinquent Taxes Receivable			5,991	68,216	74,207
Forfeiture Certificate Fee Receivable			307	1,160	1,467
Total Current Assets	\$ 14,523	\$ -	6,365	72,653	93,541
Total Assets	\$ 14,523	\$ -	\$ 6,365	\$ 72,653	\$ 93,541
<u>LIABILITIES</u>					
Current Liabilities					
Redemption Certificate Fees Receivable			\$ (57)	\$ (180)	\$ (237)
Total Current Liabilities	\$ -	\$ -	(57)	(180)	(237)
Noncurrent Liabilities					
Advance From General Fund					-
Total Noncurrent Liabilities	-	-	-	-	-
Total Liabilities	-	-	(57)	(180)	(237)
<u>NET ASSETS</u>					
Restricted Net Assets	14,523				14,523
Unrestricted Net Assets		-	6,422	72,833	79,255
Total Net Assets	\$ 14,523	\$ -	\$ 6,422	\$ 72,833	\$ 93,778

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2005

EXHIBIT R

	<u>BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS</u>				
	<u>100% TAX PAYMENT FUNDS</u>			Total	
	Foreclosure			Non-Major	
	Fund	2001	2002	2003	Enterprise
					Funds
Operating Revenues					
Interest and Penalties on Taxes		\$ 1,308	\$ 22,930	\$ 46,256	\$ 70,494
Other Foreclosure Fees and Charges	\$ 24,770				24,770
Total Operating Revenues	24,770	1,308	22,930	46,256	95,264
Operating Expenses					
Supplies and Postage				1,678	1,678
Contract Services	10,247				10,247
Total Operating Expenses	10,247	-	-	1,678	11,925
Net Operating Income (Loss)					
Before Operating Transfers	14,523	1,308	22,930	44,578	83,339
Interfund Transfers					
Transfers (Out) to General Fund		(3,258)	(86,000)		(89,258)
Change in Net Assets	14,523	(1,950)	(63,070)	44,578	(5,919)
Net Assets--October 1, 2004	-	1,950	69,492	28,255	99,697
Net Assets--September 30, 2005	\$ 14,523	\$ -	\$ 6,422	\$ 72,833	\$ 93,778

ONTONAGON COUNTY
COMBINING SCHEDULE OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2005

EXHIBIT S

BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS					
	100% TAX PAYMENT FUNDS				Total Enterprise Funds
	Foreclosure Fund	2001	2002	2003	
Cash Flows From Operating Activities					
Interest and Penalties on Taxes		\$ 1,308	\$ 22,930	\$ 46,256	\$ 70,494
Other Fees	\$ 24,770				24,770
Operating Expenses	(10,247)			(1,678)	(11,925)
Delinquent Taxes Collected		2,023	58,655	228,182	288,860
Net Cash Provided by Operating Activities	14,523	3,331	81,585	272,760	372,199
Cash Flows From Noncapital Financing Activities					
Return of Advances From Other Funds			(8,000)	(330,000)	(338,000)
(Increase) or Decrease in Forfeiture					
Certificate Fee Receivable		63	793	(1,160)	(304)
Increase or (Decrease) in Redemption					
Certificate Payable		(70)	(57)	(180)	(307)
Transfers In (Out)		(3,258)	(86,000)		(89,258)
Net Cash Provided by Noncapital Financing Activities	-	(3,265)	(93,264)	(331,340)	(427,869)
Net Increase (Decrease) in Cash and Cash Equivalents	14,523	66	(11,679)	(58,580)	(55,670)
Cash and Cash Equivalents at Beginning of Year	-	(66)	11,746	61,857	73,537
Cash and Cash Equivalents at End of Year	\$ 14,523	\$ -	\$ 67	\$ 3,277	\$ 17,867
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 14,523	\$ 1,308	\$ 22,930	\$ 44,578	\$ 83,339
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
(Increase) Decrease in Taxes Receivable		2,023	58,655	228,182	288,860
Net Cash Provided by Operating Activities	\$ 14,523	\$ 3,331	\$ 81,585	\$ 272,760	\$ 372,199

ONTONAGON COUNTY
COMBINING SCHEDULE OF FIDUCIARY
NET ASSETS--AGENCY FUNDS
September 30, 2005

EXHIBIT T

<u>AGENCY FUNDS</u>			
	General	Library	
	Agency	(Penal Fines)	
		Fund	Total
<u>ASSETS</u>			
Cash	\$381,712	\$11,433	\$393,145
Total Assets	\$381,712	\$11,433	\$393,145
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Due to Schools	\$(11,931)		\$(11,931)
Due to Townships	(94)		(94)
Due to Villages	1,668		1,668
Due to State of Michigan	384,973		384,973
Undistributed Interest	-	\$ 58	58
Undistributed Penal Fines	-	11,375	11,375
Undistributed Tax Collections	1,793		1,793
Other Trust Payable	5,303		5,303
Total Liabilities	381,712	11,433	393,145
Total Liabilities and Fund Balances	\$381,712	\$11,433	\$393,145

ONTONAGON COUNTY
COMBINING SCHEDULE OF CHANGES IN ASSETS
AND LIABILITIES--AGENCY FUNDS
For the Year Ended September 30, 2005

EXHIBIT U

	Balance 10/01/04	Additions	Deductions	Balance 09/30/05
<u>GENERAL AGENCY FUND</u>				
Assets				
Cash	\$ 349,900	\$ 5,156,358	\$ 5,124,546	\$ 381,712
Total Assets	\$ 349,900	\$ 5,156,358	\$ 5,124,546	\$ 381,712
Liabilities				
Due to Other Funds		\$ 2,421,213	\$ 2,421,213	
Due to Schools	\$ 649	617,967	630,547	\$ (11,931)
Due to Townships	8,081	129,985	138,160	(94)
Due to Villages	342	144,488	143,162	1,668
Due to State	448,823	1,675,203	1,739,053	384,973
Due to Federal		403,000	403,000	-
Undistributed Tax Collections	(115,188)	3,683,559	3,566,578	1,793
Other Trust Payable	7,193	445,413	447,303	5,303
Total Liabilities	\$ 349,900	\$ 9,520,828	\$ 9,489,016	\$ 381,712
<u>LIBRARY PENAL FINE FUND</u>				
Assets				
Cash	\$ 10,786	\$ 41,912	\$ 41,265	\$ 11,433
Liabilities				
Undistributed Interest	\$ 64	\$ 321	\$ 327	\$ 58
Undistributed Penal Fines	10,722	41,591	40,938	11,375
Total Liabilities	\$ 10,786	\$ 41,912	\$ 41,265	\$ 11,433

ONTONAGON COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2005

EXHIBIT V

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Taxes and Penalties				
Current Winter Property Taxes	\$ 1,025,000	\$ 1,025,000	\$ 1,088,625	\$ 63,625
Current Summer Property Taxes	-	423,572	423,572	-
Industrial Facilities Tax	6,920	6,920	6,855	(65)
Delinquent Real Property Taxes	115,000	115,000	76,475	(38,525)
Delinquent Personal Property Taxes	500	500	(4,828)	(5,328)
Commercial Forest Yield Tax	2,000	2,000	9,843	7,843
Commercial Forest Reserve Tax	60,500	60,500	59,146	(1,354)
Tax Exempt Housing	1,395	1,395	1,551	156
Trailer Tax	30	30	-	(30)
Swamp Lands Tax	33,735	33,735	33,896	161
Payment-In-Lieu of Taxes	275,000	275,000	269,366	(5,634)
Interest and Penalties on Taxes	500	500	686	186
Total Taxes and Penalties	1,520,580	1,944,152	1,965,187	21,035
Licenses and Permits				
Marriage Licenses	300	300	230	(70)
Dog Licenses	1,500	1,500	990	(510)
Pistol Permits	2,000	2,000	754	(1,246)
Handgun Purchase Permits	300	300	465	165
Kennel Licenses	150	150	120	(30)
Total Licenses and Permits	4,250	4,250	2,559	(1,691)
Federal Grants				
Emergency Services	10,000	10,000	7,223	(2,777)
Homeland Security Grant	102,577	102,577	90,800	(11,777)
ADC Incentive	12,000	12,000	14,510	2,510
Medical Support Enforcement	12,000	12,000	4,802	(7,198)
Cooperative Reimbursement	131,338	131,338	107,458	(23,880)
Byrne Formula Block Grant--SANE/SART		15,000	14,902	(98)
Airport Projects and Equipment	-	154,706	141,215	(13,491)
Total Federal Grants	267,915	437,621	380,910	(56,711)
State Grants				
Probate Judge Salary	20,000	56,549	57,098	549
Juvenile Officer Grant	27,317	27,317	27,317	-
Judicial Salary Standardization	18,553	38,540	38,540	-
Court Caseflow Assistance	3,000	3,000	2,040	(960)
Court Funding	45,000	45,000	43,355	(1,645)
Crime Victims' Assistance	4,000	4,000	5,960	1,960
Secondary Road Patrol	49,384	49,384	49,384	-
Marine Safety	4,087	4,087	1,296	(2,791)
Snowmobile Safety Program	21,267	21,267	12,083	(9,184)
Off-Road Vehicle Safety Program	9,494	9,494	7,126	(2,368)
MDOT Highway Safety Program	5,000	5,000	1,820	(3,180)
Airport Projects and Equipment	-	8,594	3,716	(4,878)
Cooperative Reimbursement Program	-	-	4,280	4,280
Prosecuter--CEAP Program	-	-	-	-
Prosecuter Welfare Fraud	500	500	135	(365)
Act 302 Training	2,200	2,200	3,075	875
Diverted Felons Program	-	-	166	166
Convention Facility Liquor Tax	29,918	29,918	30,396	478
State Cigarette Tax	5,521	5,521	4,496	(1,025)
State Single Business Tax	14,182	14,182	-	(14,182)
Remonumentation Grant	85,000	177,353	140,832	(36,521)
Total State Grants	344,423	501,906	433,115	(68,791)
Contributions From Local Units				
Township Contributions	-	-	4,282	4,282

ONTONAGON COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2005

EXHIBIT V
(CONTINUED)

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Charges for Services				
Circuit Court Costs	3,450	3,450	2,685	(765)
Circuit Court Probation Fees	1,000	1,000	255	(745)
District Court Costs	111,500	111,500	89,893	(21,607)
District Court Oversight Fees	10,000	10,000	10,178	178
Probate Court Costs	500	500	413	(87)
Board and Care of Dogs and Cats	100	100	-	(100)
Circuit Court Services	1,700	1,700	2,826	1,126
Friend of the Court Services	5,500	5,500	4,882	(618)
Probate Court Services	9,000	9,000	6,827	(2,173)
Treasurer Services	1,400	1,400	1,473	73
Clerk Services	10,000	10,000	9,448	(552)
Register of Deeds' Services	37,080	37,080	35,778	(1,302)
Real Estate Transfer Tax	27,000	27,000	32,857	5,857
District Court Civil Fees	2,500	2,500	3,122	622
Sheriff Services	17,000	17,000	14,629	(2,371)
Soil Erosion Fees	3,500	3,500	1,050	(2,450)
Marriage Counseling Fees	700	700	550	(150)
Record Copying	3,500	3,500	10,617	7,117
Prisoner Board	13,000	13,000	6,498	(6,502)
Tax Department Services	29,000	29,000	30,960	1,960
Airport Use Fees	3,500	3,500	2,019	(1,481)
Sale of Airport Stumpage	-	-	18,869	18,869
Sales of Supplies and Maps	75	75	97	22
Sale of Scrap and Salvage	500	500	3,109	2,609
Sale of Aviation Fuel	3,500	3,500	7,723	4,223
Park Fees	32,000	32,000	27,504	(4,496)
Total Charges for Services	327,005	327,005	324,262	(2,743)
Fines and Forfeits				
Bond and Other Forfeitures	2,500	2,500	4,688	2,188
Interest and Rents				
Interest Earned on Deposits	12,000	12,000	11,571	(429)
Rental Income	5,100	5,100	1,950	(3,150)
Total Interest and Rents	17,100	17,100	13,521	(3,579)
Other Revenues				
Sale of Capital Assets	2,500	2,500	-	(2,500)
Contributions--Public Sources	7,282	9,282	6,946	(2,336)
Contributions--Private Sources	400	400	2,720	2,320
Transporting Patients	3,000	3,000	6,776	3,776
Insurance and Bond Recoveries	-	12,458	9,668	(2,790)
Election Expense Reimbursements	100	100	4,862	4,762
General Reimbursements and Refunds	16,200	16,200	42,199	25,999
Vending and Pay Phone Commissions	2,500	2,500	1,483	(1,017)
Total Other Revenues	31,982	46,440	74,654	28,214
Total Revenue	2,515,755	3,280,974	3,203,178	(77,796)
Other Financing Sources				
Operating Transfers In				
Friend of the Court	1,037	1,037	1,037	-
Forestry	-	5,000	-	(5,000)
Budget Stabilization	42,116	135,606	135,606	-
Social Welfare	-	-	1,174	1,174
Revenue Sharing	130,000	179,033	148,622	(30,411)
100% Tax Payment Funds	117,500	117,500	89,258	(28,242)
Total Other Financing Sources	290,653	438,176	375,697	(62,479)
Total Revenues and Other Financing Sources	\$ 2,806,408	\$ 3,719,150	\$ 3,578,875	\$ (140,275)

ONTONAGON COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2005

EXHIBIT W

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Board of Commissioners	\$ 43,750	\$ 52,836	\$ 52,646	\$ 190
Circuit Court	23,250	40,623	40,583	40
District Court	106,836	142,145	142,018	127
Friend of the Court	103,000	163,103	159,123	3,980
Jury Board	1,800	1,742	1,701	41
Probate Court	118,985	242,006	234,984	7,022
Family Counseling	2,500	-	-	-
Elections	10,154	11,569	11,566	3
Clerk/Register of Deeds	92,327	134,835	134,563	272
Accounting Department	44,813	74,743	74,443	300
Equalization Department	108,305	175,652	174,329	1,323
Prosecuting Attorney	122,705	205,022	203,284	1,738
Tax Processing	10,500	9,997	9,929	68
Remonumentation Program	85,000	144,403	140,837	3,566
Treasurer	105,999	169,669	169,291	378
Cooperative Extension Service	56,304	68,758	67,673	1,085
Courthouse and Grounds	69,182	94,595	94,294	301
Soil Survey	565	390	377	13
Soil Conservation	2,375	2,375	2,375	-
Soil Erosion Control	3,480	1,632	1,359	273
Resource Conservation and Development	325	325	325	-
Record Copying	3,850	3,850	3,739	111
Central Supply	1,100	1,550	1,476	74
Computer Network	1,000	11,000	10,359	641
County Audit	17,000	20,326	20,093	233
Consultant Fees	12,600	12,600	12,134	466
Total General Government	1,147,705	1,785,746	1,763,501	22,245
Public Safety				
Sheriff	270,135	515,044	514,918	126
Secondary Road Patrol	37,872	52,537	51,563	974
Snowmobile Law Enforcement	20,715	2,949	2,899	50
Marine Law Enforcement	4,950	2,117	2,052	65
Off-Road Vehicle Enforcement	6,341	-	-	-
Jail	205,603	274,934	271,159	3,775
Mine Inspector	6,462	11,075	11,055	20
Planning Commission	2,387	1,927	1,797	130
Emergency Services	17,445	23,261	23,161	100
Homeland Security Grants	102,577	67,177	65,400	1,777
Total Public Safety	674,487	951,021	944,004	7,017
Public Works				
Airport	15,417	25,490	25,259	231
Total Public Works	15,417	25,490	25,259	231

ONTONAGON COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2005

EXHIBIT W
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Health and Welfare				
District Health Department	54,639	54,339	54,316	23
Substance Abuse Agency	14,959	15,198	15,198	-
Medical Examiner	16,025	14,975	14,490	485
District Mental Health Department	48,814	48,814	48,814	-
Emergency Ambulance	1,100	1,225	1,145	80
Care of Patients	1,950	3,813	3,745	68
County Social Services Board	-	1,235	1,145	90
Gogebic Human Services Coordinating Board	2,500	2,500	2,500	-
Veterans' Burials	8,500	12,010	11,940	70
Veterans' Counselor	1,254	1,303	1,253	50
Veterans' Affairs Board	460	292	292	-
Total Health and Welfare	150,201	155,704	154,838	866
Community and Economic Development				
U.P. Commission on Area Progress	600	600	600	-
Western UP Planning and Development Region	7,024	7,024	7,024	-
Total Community and Economic Development	7,624	7,624	7,624	-
Recreation and Cultural				
County Park	19,150	24,170	24,070	100
Other				
Employee Fringe Benefits	685,625	12,025	11,524	501
Insurance and Bonds	63,400	58,400	58,269	131
Total Other	749,025	70,425	69,793	632
Capital Outlay				
Vehicles and Airport Improvements	29,235	224,160	200,507	23,653
Total Capital Outlay	29,235	224,160	200,507	23,653
Debt Service				
White Pine Industrial Park Loan Principal	8,564	8,563	8,563	-
Total Expenditures	2,801,408	3,252,903	3,198,159	54,744
Other Financing Uses				
Interfund Transfers (Out)				
Law Library	5,000	10,100	10,100	-
Revenue Sharing	-	389,663	389,663	-
Child Care	-	20,000	20,000	-
Total Other Financing Uses	5,000	419,763	419,763	-
Total Expenditures and Other Financing Uses	\$ 2,806,408	\$ 3,672,666	\$ 3,617,922	\$ 54,744



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 9, 2005

Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

RE: Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Ontonagon County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise Ontonagon County's basic financial statements and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Ontonagon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Ontonagon County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations section of this report as findings 04-01, 04-02, and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Ontonagon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of noncompliance, which we have reported to the management of Ontonagon County in the accompanying Comments and Recommendations section of this report as findings 04-03 and 04-04.

This report is intended solely for the information and use of management, the board members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ONTONAGON

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although our study and evaluation of internal controls disclosed no condition that we believe to be a material weakness, our audit disclosed reportable conditions which we wish to point out for consideration by the management of Ontonagon County.

INTERNAL CONTROL WEAKNESSES

Sheriff Department--Dime Store Receipts

Finding 04-01

Condition: The Sheriff's Department uses generic receipts to account for money collected from trustees.

Criteria: The Uniform Accounting Procedures Manual states: "Numerically controlled (printer prenumbered) three part official receipts with the name of the local unit printed on the receipt must be issued for all revenues. Receipt books issued to other departments must be accounted for numerically. The use of "Dime Store" receipts is strictly prohibited."

Recommendation: We recommend that the Sheriff's Department use official receipts for all collections with the account classification included thereon.

Sheriff Department--Bank Account Reconciliation

Finding 04-02

Condition: The Sheriff's Department does not reconcile its bank account.

Criteria: The Uniform Accounting Procedures Manual states: "All bank accounts must be reconciled to the local unit accounting records monthly."

Recommendation: We recommend that the Sheriff's Department reconcile its bank account on a monthly basis. The balance must agree with the accounting records of the local unit.

Local Corrections Officers' Training Fund

Finding 05-01

Condition: Ontonagon County is currently recording the \$10 booking fee established by Public Act 124 of 2003 in its General Fund.

Criteria: According to Numbered Letter 2004-1 issued by the Michigan Department of Treasury, the county is to establish the "Local Corrections Officers' Training Fund" as a special revenue fund #262 to account for the \$10 booking fee. The revenue earned from this act is restricted and may only be spent on costs relating to the continuing education, certification, recertification, and training of local corrections officers and inmate programs including substance abuse and mental health programs in that county.

Recommendation: We recommend the county establish the separate revenue fund immediately and begin recording the \$10 booking fee in this fund.

COUNTY OF ONTONAGON

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE

County Board--Budget

Finding 04-03

Condition: As indicated in the notes to the financial statements, the County of Ontonagon has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. For the fiscal year ended September 30, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the General and Special Revenue Funds as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
Major Special Revenue Fund			
Public Transit			
Public Works	\$ 470,504	\$ 477,588	\$ 7,084
Non-Major Special Revenue Funds			
Law Library			
General Government	13,000	15,260	2,260
Social Welfare			
Health and Welfare	1,085	1,105	20
Child Care Probate			
Health and Welfare	54,366	56,620	2,254

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Directive: We direct that the county's chief administrative officer, and those boards and commissions and administrative personnel responsible for administering the activities of the various funds of the county, to develop budgetary control procedures for the General Fund and Special Revenue Funds which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

COUNTY OF ONTONAGON

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

County--Electronic Transactions of Public Funds

Finding 04-04

Condition: Ontonagon County electronically transfers funds for payroll withholdings and other payments without legal authority.

Criteria: According to MCL 124.303: “A local unit shall not be a party to an ACH (Automated Clearing House) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Directive: We direct the county board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.